

GOVT'S FOCUS ON INFRA TO PLAY OUT

Cap Goods & Infra Cos, Banks Likely to Gain Further if NDA Returns

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Mumbai: Shares of companies in capital goods, infrastructure, construction, power and NBFCs rallied on Monday encouraged by the exit poll, which pointed to a BJP-led coalition victory in the general elections. These sectors are likely to benefit if BJP returns to power, said analysts.

"Given the NDA government's focus on infrastructure development as stated in BJP's manifesto, we see renewed buying interest in companies from construction, infrastructure and building material sectors," said Gaurav Dua, head-strategy & investments at Sharekhan. "Also, some of the other investment themes would include private sector corporate lenders and specialty chemicals.

BSE's capital goods, finance, realty, power and industrial indices gained more than 5% each on Monday while the bankex, utilities and energy indices gained between 4% and 5%.

"We remain constructive on capex related sectors - capital goods, corporate focused banks and select NBFCs," said Dharendra Tiwari, head of research at Elara Capital. "We will review our portfolio construction strategy post actual election result outcome, but we remain cautious on export plays like pharma as we see room for further earnings cut. We are neutral on IT as the deal momentum is balanced by risks such as escalation in trade wars and reversal in USD-INR."

Analysts said NBFCs and industrials are trading at cheaper valuations compared to exporters like technology and pharma.

"We recommend an overweight on private financials, including NBFCs, industrials cyclicals and are neutral on IT," said Suhas Harinarayanan, head of research at JM Financials. "If the results are indeed in-line with the exit polls, there is a strong likelihood of the rupee strengthening in the near-term leaving IT as an under-performer.

Analysts are advising investors to use the rally to exit troubled companies.

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“Among the sectors, we remain positive are banks (peaked-out NPA cycle, asset resolution and relatively robust earnings) and infrastructure/ capital goods (strong execution and order inflows, benefits of benign interest rates) in the near term,” said Pankaj Pandey, head of research, ICICI Direct.

According to Naveen Kulkarni, head of research at Reliance Securities, there could be a rally in specific sectors like infrastructure and banking.

“The market is likely to rally further, but the rally may not be significant as there are several challenges including not so encouraging earnings growth, lower liquidity, slowing of the economy and global challenges,” said Kulkarni.